

TOP SECRET

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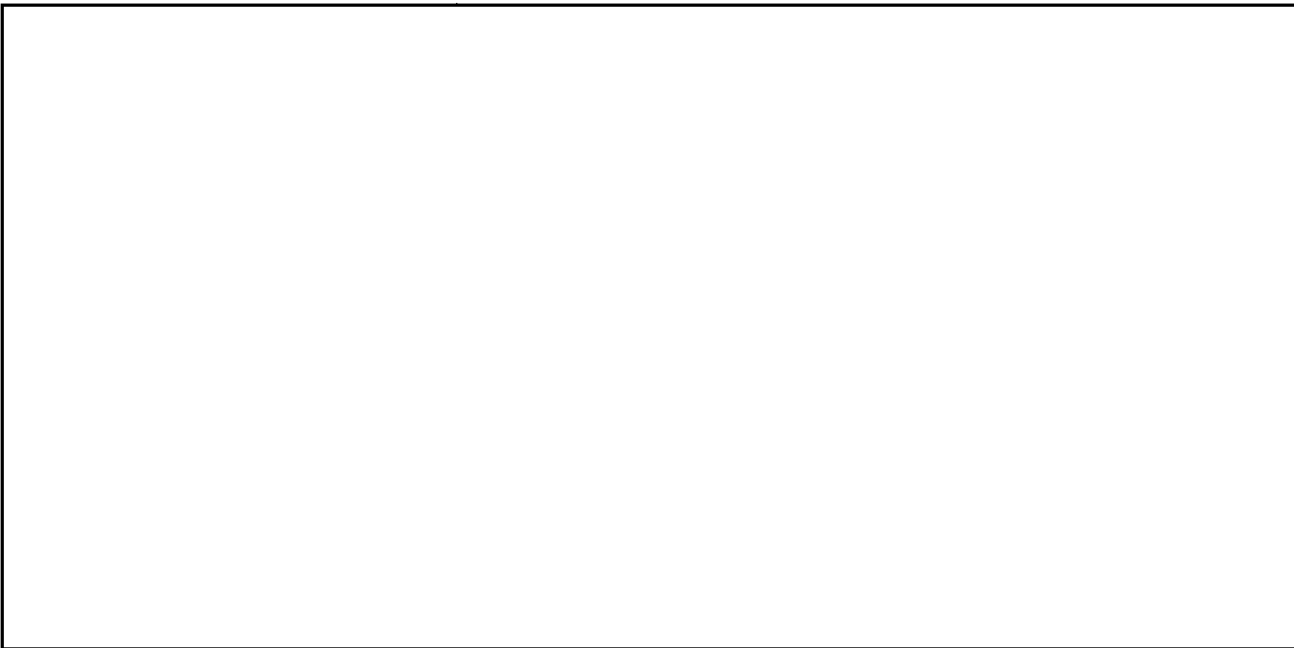
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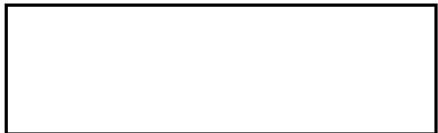
NEAR EAST - AFRICA

3.



4. Mossadeq continues adamant on the oil dispute:

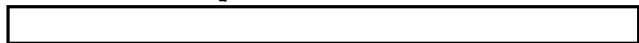
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Prime Minister Mossadeq has indicated that he considers politically inadvisable the acceptance of any solution to the Anglo-Iranian dispute proposed by the International Bank which

does not represent a clear-cut victory for Iran over the British.

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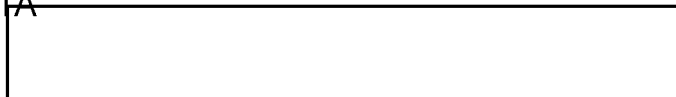


he believes that his victory in the current elections will force the British to accept Iranian terms.

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Comment: Mossadeq is aware that his political stature depends on an unqualified victory for Iran in its oil dispute. His recent demand that the British close their consulates in Iran indicates that he intends to use his anti-British stand to secure a vote of confidence at the Parliamentary interpellation on 22 January. Although he is genuinely concerned over the serious financial condition of his government, there is no indication that he will agree to any compromise on the oil dispute.

5. Egyptian Government confident of victory over British:

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According to the American Ambassador in Cairo, the Wafd government is becoming more confident each day that the present Egyptian commando tactics in the Suez Canal zone will eventually force the British to withdraw from the country. Even the King is being influenced by this attitude.

The Ambassador reiterates that a compromise must now be made on the Sudan issue. He states that ex-Prime Minister Sirry Pasha has warned that if matters continue to drift as they are, even recognition of the title of King of the Sudan will not "buy" Egyptian acceptance of the Western defense proposals.

Comment: The type of reasoning indulged in by the Wafd government has induced even the more moderate leaders to refuse to take action to stop deterioration in the internal situation.

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EASTERN EUROPE

6.

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WESTERN EUROPE

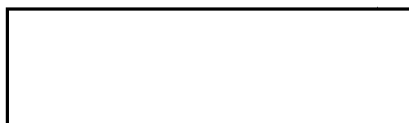
7. Comment on German inter-zonal trade:

Allied officials in Germany are now considering whether or not to extend the present virtual embargo of inter-zonal German trade adopted in retaliation against Soviet harassing of Berlin trade. The Soviet interference has been gradually reduced, particularly since early November, to a point where it now consists only of slow handling of Berlin export permits. West Berlin firms do not appear to be suffering from the present restrictions, and American officials feel that current airlift operations can be reduced and possibly soon ended.

British and French officials have indicated their desire to permit the West Germans to renew trade with East Germany, and recently, United States officials in Germany have suggested that the Allied embargo might now be dropped. They stress that it has become less and less effective because of the Soviet expectation that it will be of short duration, and because of the apparent East German ability to procure needed materials from other Western countries.

8. Churchill still opposes NATO plans for Atlantic Command:

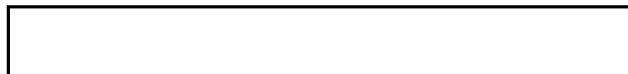
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Expressing his continued opposition to the existing agreement for an American Supreme Allied Commander in the Atlantic, Churchill told Canadian officials in Ottawa that he would take up the matter again on his return to Washington, and requested support

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for his stand. He stressed Britain's greater experience in dealing with convoy problems and maintained that the command question was a matter of "British life blood" as against American and Canadian inconvenience.

The Canadian Chiefs of Staff still favor the United States' view for technical military reasons. External Affairs Minister Pearson and other political leaders, however, believe Churchill may propose a compromise and hope the United States can accept it, feeling that the political gain might offset the technical loss.

9. Comment on Spanish reaction to anticipated US aid:

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[REDACTED] The US State Department has expressed interest in reports that the Spanish Government is misrepresenting the motives and conditions of proposed American aid to Spain and that the Spanish people are not being informed as to American objectives in seeking a military arrangement with Spain.

Spanish propaganda has treated impending American aid and military negotiations as a personal victory for Franco and as vindication for his intransigent refusal to alter the internal policies of his regime, as well as overdue recognition by the United States of the military value of Spain. The controlled press has strongly implied that economic aid will not necessarily depend upon military considerations and that every sector of the country's economy will receive immediate aid in major proportions.

The emphasis on economic aid and official expressions to American representatives of impatience over its delay reflect the political importance to the regime of concrete evidence of US assistance and may result in serious disappointment with the results of future negotiations.

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NORTH AMERICA

10. Canadian Cabinet rejects NATO request for economic aid to Europe:

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The Canadian Cabinet on 12 January rejected the recommendation of the Temporary Council Committee that Canada extend 200 million dollars in economic aid to Europe in 1952. Minister of External Affairs Pearson was unable to override the opposition of the Minister of Finance, whose views were accepted with little debate.

The Cabinet has indicated that Canada might provide some additional military aid to Europe out of its 2.5 billion dollar defense budget for the fiscal year 1952-1953. The American Embassy in Ottawa points out that this suggested transfer would mean only the diversion of some defense production to NATO without any increase in the Canadian or the total NATO effort.

Comment: This unexpected action may be a government attempt to frustrate opposition efforts to make mounting domestic inflation a major political issue in a year which may see a general election.

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